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Regulation of Crypto Assets

What is the issue?

- Countries are in various stages of banning, un-banning, re-banning and regulating crypto assets.
- India can take some cues from other countries, but it needs a smart regulation that is made in India.

What are crypto assets?

- A crypto asset is a digital asset; but not all digital assets are crypto assets.
- The distinguish features of crypto assets:
    i. uses cryptography
    ii. depends on distributed ledger technology
    iii. no need for a third party such as a bank to issue crypto assets
    iv. have three primary uses: as an investment, a medium of exchange, and to access goods and services.
- Crypto assets are commonly known as cryptocurrencies such as Litecoin, Ripple, Bitcoin, and Ethereum.
- Other crypto asset classifications are utility coins, security coins, and cryptocurrencies.

What are the India-specific reasons to promote crypto assets?

Establish India as an integral part of the new financial ecosystem

- Domestic crypto markets in India and the global opportunities in that domain are synergistic.
- So, finance firms, banks, fintech and crypto startups in India can tap into the huge growth of the industry.
- Creative 'crypto export zone' schemes can incubate clusters of excellence and create world-class financial services firms and unicorns, much like the software technology parks (STPs) and SEZs enabled the IT services boom.

Capitalize on new technology and services opportunities

- Blockchain application development, its scalability, security and analytics are their next growth opportunities.
- To cater to this demand, there is a need for a large talent pool with expertise in the crypto tech stacks.

Financial innovation

- Crypto assets can grow as an option under emerging financial innovations with burst of technology innovation and business models around blockchains.

What are the regulatory concerns with crypto assets?

- **Investor protection** - Crypto assets are seen as high-risk, speculative assets.
- Investor education, guidelines against mis-selling and other safeguards are needed.
- Crypto assets are now better understood as digital assets, instead of as digital currencies.
- Regulating them like commodities and clarifying their tax treatment is a win-win.
- The government's tax revenues go up. It can also increase the number of tax filers and the number of taxpayers.
- **Sidestepping current regulations** - Some crypto assets may allow individuals to bypass securities issuance laws - A potential risk to capital markets.
- Crypto assets may be used to avoid capital controls - A potential risk to macroeconomic stability.
- If crypto holders have to declare their holdings above a particular level in their tax forms, such concerns can be mitigated.
- **Illicit transfers** - Anonymous transfers of crypto assets may weaken anti-money laundering laws or combating the financing of terrorism rules - A potential national security issue.

In all, a smart regulatory approach should foster financial innovation, safeguard investors and unshackle the Indian crypto ecosystem.

Reference

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